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January 21, 1977

Agricultural Letter

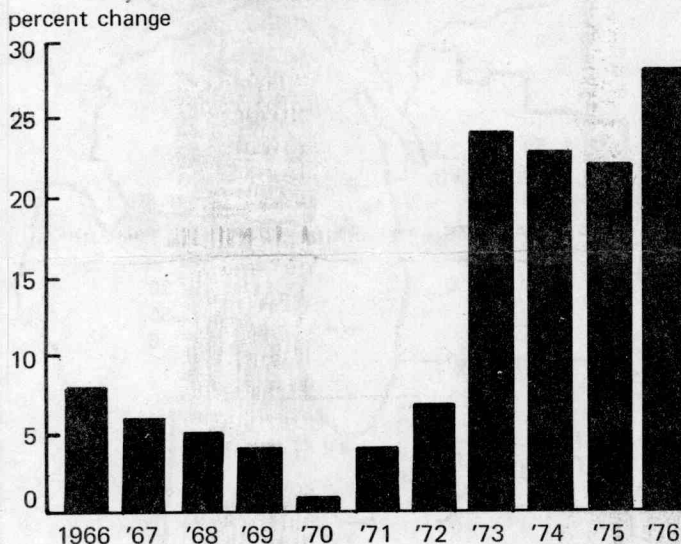
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Number 1414

FARMLAND VALUES continued on a sharp up-trend during the fourth quarter of 1976, but the rate of appreciation did slow. According to a recent survey of 650 agricultural banks, the value of good farmland in the Seventh Federal Reserve District rose 5.5 percent during the last three months of 1976. Although large by most historical comparisons, the most recent quarterly increase was down from the 8 percent gain during the third quarter of 1976 and the smallest rise since the second quarter of 1975. For all of calendar 1976, however, the rise in district farmland values averaged 28 percent, the largest annual gain since the current boom started in late 1972.

The phenomenal rise in district farmland prices is reflected in a compounding of the annual increases since 1972. On this basis the overall district average has advanced nearly 140 percent since the beginning of 1973. Farmland prices in Illinois rose nearly 180 percent during the past four years, while those in Indiana and Iowa were up about 160 percent. In Michigan and Wisconsin the past four-year rise in farmland prices has been comparatively moderate, approximating 75 and 85 percent, respectively.

District farmland values achieve record increase in 1976



The increase in farmland values continued to vary widely among the district states during the fourth quarter, but each state recorded a slower rate of appreciation. (See back of Letter.) Bankers from the Seventh District portions of both Illinois and Indiana reported fourth-quarter increases of 9 percent, 1 to 2 percentage points below the third-quarter gains, but

IN LIBRARY USE ONLY still sufficient to hold the annual increases for all of 1976 at 41 and 33 percent, respectively, in those two states. In Iowa the rate of increase dropped from nearly 8 percent in the third quarter to 5 percent during the October-December period. In Wisconsin the fourth-quarter rise in farmland values slowed to 3 percent, while in Michigan the rise was less than 1 percent.

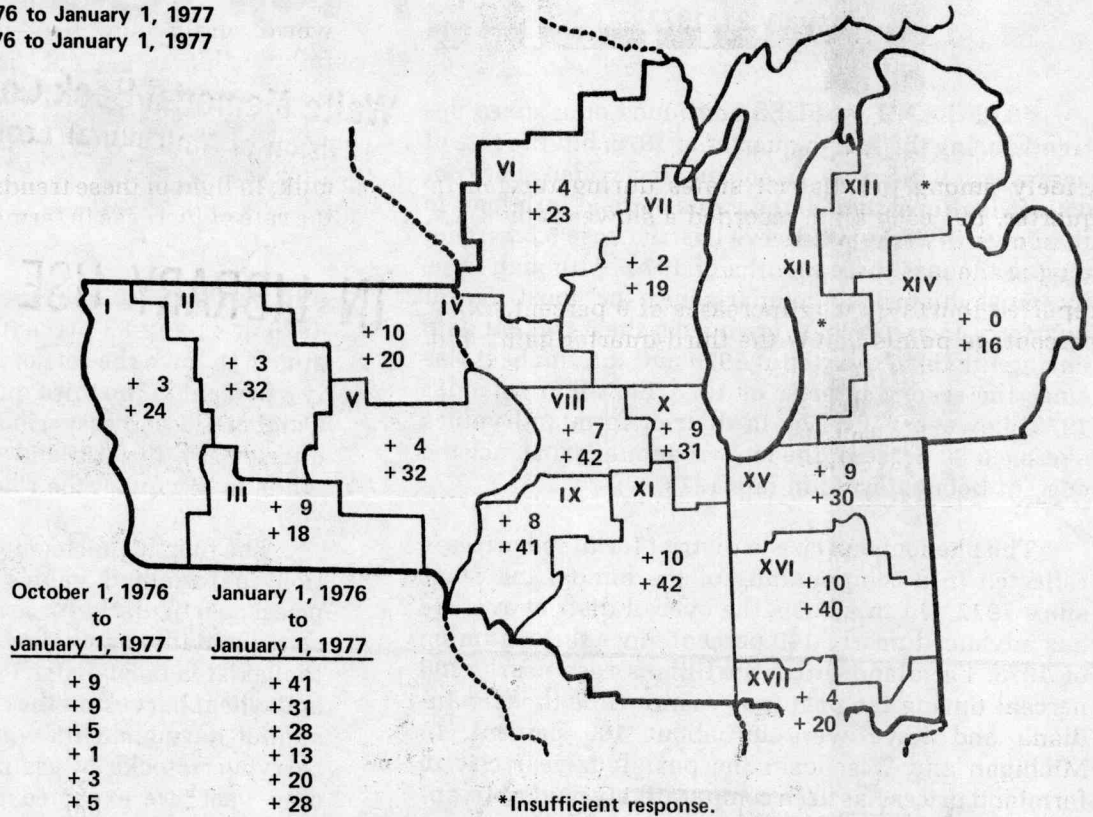
The fourth quarter slowing in the rate of appreciation in farmland values reflects lower commodity prices, particularly for grains, and perhaps some concern about the current low subsoil moisture conditions that exist in most district states. The record 1976 corn and wheat harvest in the United States coincided with similar developments worldwide. As a result, world carryover stocks of grain by the end of the 1976/77 crop year are expected to exceed the past 10-year average by about 10 percent. And despite increased consumption, the ratio of carryover stocks to annual utilization—on a worldwide basis—is expected to closely approximate the past 10-year average. These developments pushed U.S. grain prices to the lowest levels in about three and a half years during the fourth quarter of 1976. Moreover, sharp declines in hog prices coupled with low cattle prices contributed to lower fourth-quarter farm earnings and no doubt raised caution flags among some of the previously aggressive bidders for farmland.

Future trends in farmland values are clouded by the multitude of uncertainties that confront the entire agricultural sector. Current and anticipated trends in farm earnings will no doubt continue to play a major role in farmland values. Although prospects for individual commodities vary, most projections suggest 1977 farm income may fall somewhat short of the year-earlier level. Despite high oilseed prices the improved world grain supplies—barring widespread crop failures this year—could hold a fairly tight lid on grain prices for the foreseeable future. Although cattle prices will likely hold above year-earlier levels, significantly lower prices are probable for hogs and milk. In light of these trends most observers anticipate the rate of increase in farmland values will continue to moderate during the current year.

Gary L. Benjamin
Agricultural Economist

Percent change in dollar value of "good" farmland

Top: October 1, 1976 to January 1, 1977
 Bottom: January 1, 1976 to January 1, 1977



Current Trend in Farmland Values

Percent of banks reporting the trend is

Top: Up
 Center: Stable
 Bottom: Down

